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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

Current US Civil Air Negotiations with Yugoslavia

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1968

INTELLIGENCE MEMORANDUM

Current US Civil Air Negotiations with Yugoslavia

Summary

Current negotiations in Washington between the United States and Yugoslavia may produce a bilateral civil air agreement replacing the present Yugoslav provisional permit, originally issued in March 1963, which provides the basis for Pan American Airways (PAA) service to Yugoslavia. The agreement would formalize Pan American service to Belgrade and would give the Yugoslav State Airlines (JAT) the right to operate Belgrade-New York air service with no beyond rights from New York.

Yugoslavia has air agreements with all of the European Communist countries and 24 Free World countries, and JAT provides service to all of the European Communist countries except Albania and to 13 Free World countries. JAT's international service is limited primarily to Europe, but in terms of flights per week, it provides more international service to the Free World than any Communist airline except the Czechoslovak State Airline. Passenger volume on JAT's international service has tripled since 1963. JAT uses Caravelles on almost all its international routes.

An air agreement with the United States would add a potentially profitable route to JAT's service.

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However, Yugoslavia has no long-range aircraft and has delayed a decision on whether to buy the Soviet IL-62 or a Western aircraft. This delay might prevent JAT from inaugurating a Belgrade-New York service before late 1969.

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US Civil Air Negotiations with Yugoslavia

1. A Yugoslav civil aviation delegation is scheduled to arrive in Washington on 28 October 1968 to negotiate a US-Yugoslav bilateral civil air agreement. The delegation will be headed by Radoslav Radosavljevic, Deputy Director of The Directorate for Civil Aeronautics (GDCA) since about 1966, and will include Bogoljub Filipovic, Chief of the International Relations Section, and Mr. Vojvodic, the JAT representative in New York. The negotiations are expected to last from ten days to two weeks.



Radosavljevic

Background of the Negotiations

2. In 1949 the United States and Yugoslavia concluded a provisional air arrangement providing for Yugoslav air transit and landing rights in the US-occupied areas of Austria and Germany with reciprocal rights for PAA to and beyond Yugoslavia. The possibility of JAT service from Belgrade to New York was mentioned. This arrangement was cancelled by mutual consent in August 1959. A Yugoslav letter of intent, however, allowed PAA to continue to overfly Yugoslavia. In March 1963, the Yugoslav Government provided PAA with a provisional two-year permit which required that one-third of the overflights must land in Belgrade. On the basis of this permit, which has since been extended on two occasions, PAA inaugurated direct New York-Belgrade service on 24 May 1963.

3. The Yugoslavs have made intermittent references to a desire for a formal US-Yugoslav air agreement. Mr. Filipovic firmly indicated in March of 1968 that the "time may be appropriate to open discussions leading to the conclusion of a bilateral civil air agreement." As justification, he pointed to the existing PAA service and to the consideration being given by the Yugoslav Government to the purchase of US aircraft. The primary issue in the current

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negotiations is likely to be the control of ticket sales in Belgrade. At present JAT is the sales agent for PAA and uses this control to promote use of JAT intermediate flights to Western Europe.

Yugoslav Civil Air Operations

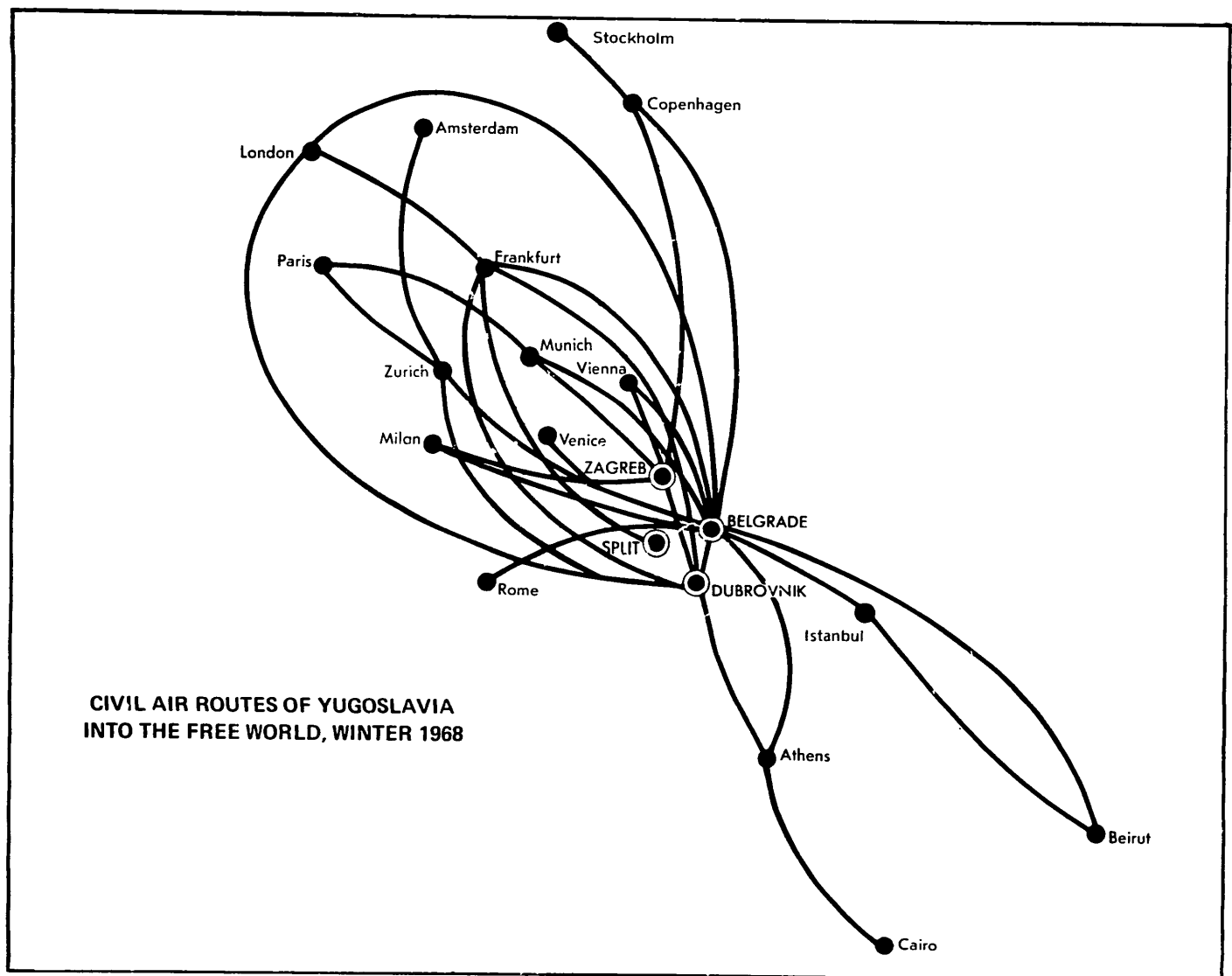
4. Yugoslavia has civil air agreements with all of the European Communist countries and with 24 Free World countries* (see Table 1). JAT, the official state airline, serves all of the European Communist countries except Albania and 13 Free World countries (see the map). The Yugoslav airline offers more international flights, although to fewer countries, than any other Communist airline except the Czechoslovak State Airline.** As primarily a European air carrier, JAT's service outside Europe is limited to weekly or twice-weekly service to Cairo, Istanbul, and Beirut.*** Routes to the Free World extended over 16,000 unduplicated route miles as of October 1968 (see Table 2).

* Yugoslavia has been a member of the International Civil Aviation Organization (ICAO) since 1960 and is signatory to the 1944 Convention on International Civil Aviation and other multilateral conventions concerned with international civil aviation. Czechoslovakia, Poland, and Rumania of the Eastern European countries also are members of ICAO, and Hungary reportedly will apply for ICAO membership in the near future. The USSR is not a member of ICAO.

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*** Early in 1968, JAT cancelled its Belgrade-Tunis-Tripoli service because of the low volume of passenger traffic.

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5. Passenger traffic on JAT's international routes has shown continual growth since 1961 and presently accounts for nearly half of the total passengers carried by JAT, as shown in the following tabulation:

Year	Thousand Passengers				
	Domestic		International		Total Number
	Number	Percent	Number	Percent	
1961	191	77	57	23	248
1963	296	78	83	22	379
1965	331	65	176	35	507
1966	210	49	219	51	429
1967	265	52	240	48	505

The sharp decline since 1965 in the number of passengers carried in domestic service resulted from the discontinuance of several routes -- a consequence of the elimination of government subsidies to cover losses on domestic air services. There have been no accidents resulting in the loss of life on scheduled international or domestic service of Yugoslav airlines during the past decade.

Other Yugoslav Airlines

6. Yugoslavia, unlike most Eastern European countries, has permitted the establishment of more than one airline. Adria Airways, established in 1963, is operated by the Yugoslav Republic of Slovenia. Adria, which is primarily a charter air carrier, provides limited scheduled domestic service and once provided service between Belgrade and Algiers. A third airline, Pan-Adria, operated by the Republic of Croatia, carries mail and a few passengers on a small domestic route network.

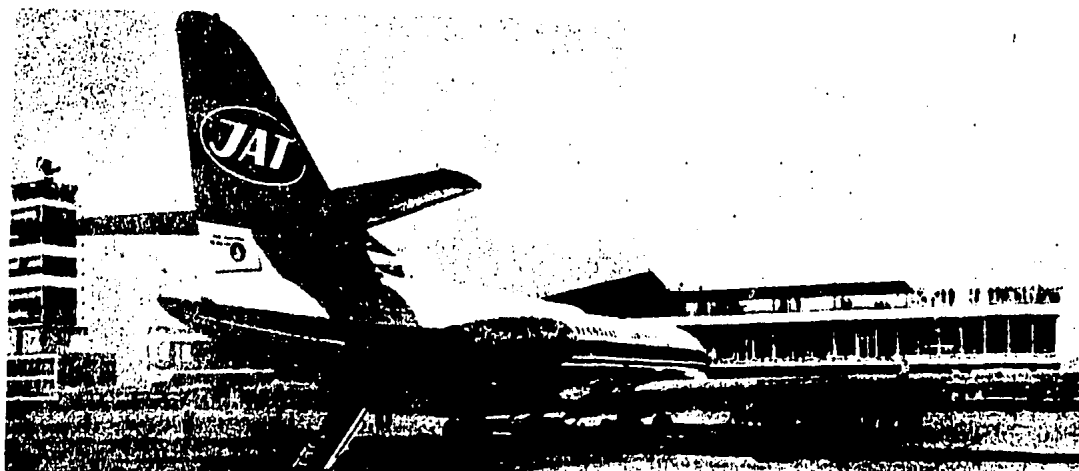
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7. Since their founding, both Adria and Pan-Adria have floundered because of uneconomic routes and outdated equipment. In early 1968, Adria was declared bankrupt, the weekly service between Belgrade and Algiers was suspended, and Adria's equipment (4 DC-6B's) was offered for sale.* However, Generalexport, Yugoslavia's largest foreign commercial enterprise, which hopes to absorb Adria, purchased two Soviet TU-134's and stated that the aircraft will be used for charter flights between West European countries and Yugoslav resort areas in the summer of 1969. The acquisition of these aircraft would enable Generalexport to fulfill Adria charter bookings next summer and strengthens its bid to absorb Adria.

Aircraft

8. JAT uses Western aircraft exclusively on its international routes. Its inventory includes six Caravelles (85 passengers), six Convair 440's (52 passengers) and ten DC-3's (26 passengers).** The Caravelles are used on all except five of JAT's international routes. The shortage of modern aircraft has impeded JAT's expansion, particularly to the Middle East and Africa.



JAT Caravelle at the Belgrade Airport

* Two of the DC-6B's reportedly have been sold to Brothers Air Service, Aden, for delivery in 1968, and the two others tentatively sold for delivery in 1969.

** Adria Airways has a fleet of 4 DC-6B's. Generalexport has two Soviet TU-134's.

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9. The expansion of Yugoslavia's air transport jet fleet has been marked by indecision and limited stop-gap measures. After a two-year study, JAT officials concluded that the Boeing 737 was more economical than the British BAC-111 or the Soviet TU-134 aircraft for use in their European-Mediterranean route network. Consequently, in July 1968, JAT was leaning strongly toward the purchase of seven Boeing 737's at a total cost of about \$45 million. No final decision has been made, probably because of balance-of-payments constraints, and JAT reportedly has leased two additional Caravelles as a stop-gap measure. There also has been no decision made on the purchase of the long-range jet aircraft that would be required on a Belgrade-New York service. A minimum of two aircraft would be necessary at a total cost of \$10 million to \$15 million. JAT probably would prefer to buy Western aircraft but might be tempted to purchase the cheaper Soviet IL-62 if better credit arrangements were available.

Future Plans

10. The Yugoslavs will be slow to expand their service outside of Europe. Even with the acquisition of more modern medium- and long-range aircraft, JAT probably will concentrate first on upgrading service and increasing the number of flights on its existing route network. A limited extension of existing routes and some further service to North Africa can be anticipated, but in recent years Yugoslavia has stressed profitability of air routes rather than extension of service solely for the sake of prestige. The Belgrade-New York route should be both prestigious and profitable.

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Table 1

Civil Air Agreements of Yugoslavia with Countries
of the Free World, as of Mid-1968

<u>Country</u>	<u>Year</u>	<u>Country</u>	<u>Year</u>
Afghanistan	1960	Morocco	1964
Algeria	1964	Netherlands	1957
Austria	1953	Norway	1964
Belgium	1957	Sudan	1964
Denmark	1964	Sweden	1958
Finland	1968	Switzerland	1953
France	1952, 1967	Syria	1966
Greece	1951	Tunisia	1966
Guinea	1961	Turkey	1953
Italy	1955, 1967	UAR	1955
Lebanon	1954	United Kingdom	1959
Luxembourg	1960	West Germany	1957

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Table 2

Yugoslav State Airline (JAT) Schedule
to Free World Countries, Winter 1968

Route	Trip Number	Flights per Week	Type of Aircraft
Belgrade-Zagreb-London	JU-210	3	Caravelle
Belgrade-Zagreb-Frankfurt-London	212	3	Caravelle
Belgrade-Zagreb-London	218	1	Caravelle
Belgrade-Zagreb-Zurich-Amsterdam	220	1	Caravelle
Belgrade-Ljubljana-Amsterdam	224	1	Caravelle
Belgrade-Munich-Paris	240	4	Caravelle
Zagreb-(1 Zurich, 2 Munich)-Paris	242	3	Caravelle
Dubrovnik-Zagreb-Munich-Paris	246	1	Caravelle
Zagreb-Vienna	310	1	Caravelle
Belgrade-Vienna	312	2	Convair 440
Zagreb-Zurich	322	1	Caravelle
Belgrade-Zagreb-Frankfurt	350	2	Caravelle
Belgrade-Frankfurt	352	1	Convair 440
Dubrovnik-Pula-Frankfurt	354	1	Caravelle
Split-Zagreb-Frankfurt	356	1	Convair 440
Zagreb-Munich	358	2	Convair 440
Belgrade-Zagreb-Prague-Copenhagen	360	3	Caravelle
Belgrade-Zagreb-Copenhagen-Stockholm	366	1	Caravelle
Dubrovnik-Munich	370	1	Caravelle
Belgrade-Zagreb-Munich	372	1	Caravelle
Belgrade-Zagreb-Rome	402	1	Caravelle
Belgrade-Dubrovnik-Rome	406	3	Caravelle
Zagreb-Milan	408	2	Caravelle
Belgrade-Split-Rome	410	1	Caravelle
Dubrovnik-Athens	414	1	Caravelle
Belgrade-Dubrovnik-Athens	416	1	Convair 440
Belgrade-Athens-Cairo	440	2	Caravelle
Belgrade-Beirut	472	1	Caravelle
Belgrade-Istanbul-Beirut	474	1	Caravelle

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